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FEDERAL COMMUNICATIONS COMMISSION
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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of	)	
	)	CC Docket No. 96-5
1995 Annual Access Tariffs	)	
	)	Transmittal No. 963
GTE Telephone Operating Companies	)	Transmittal No. 146
GTE System Telephone Companies	)	

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REBUTTAL COMMENTS
OF AT&T CORP.

Pursuant to the Bureau's Designation Order in this proceeding, AT&T Corp. ("AT&T") respectfully submits these Reply Comments on the GTE Telephone Operating Companies' and the GTE System Telephone Companies' (collectively "GTE") Direct Case.[1] In the Designation Order, the Bureau established an investigation of exogenous cost adjustments to Price Cap Indexes ("PCIs") proposed by GTE with regard to the sale of telephone exchanges.[2]

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1 1995 Annual Access Tariffs GTE Telephone Operating Companies, GTE System Telephone Companies, Order Designating Issues for Investigation, CC Docket No. 96-5, Transmittal Nos. 963 and 146, released January 23, 1996 ("Designation Order").

2 Comments in this proceeding were filed by AT&T Corp. and U S WEST Communications, Inc.

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AT&T noted in its Comments, inter alia, that the Commission anticipated that sales or swaps of telephone exchanges should be reflected in a downward adjustment to the local exchange carrier's ("LEC's") PCIs. This presumption is a reasonable one, because these sales and swaps have to date taken place with high-cost, unprofitable exchanges and, accordingly, the removal of those high-cost exchanges from the LECs' PCIs has been appropriate to ensure that the LECs would not realize unwarranted higher earnings on their remaining investment.[3]

In its Comments, U S WEST (at p. 5) implies that an exogenous adjustment should be allowed not only when a LEC is disposing of a high-cost exchange (which results in the expected downward PCI adjustment), but also where the LEC is disposing of below-average-cost exchanges, which results in an upward PCI adjustment, as has apparently occurred in the instant case for several of GTE's exchanges. AT&T disagrees with this inference, and urges the Commission not to allow such upward "exogenous" adjustments to take place.

Where the LEC is selling or swapping a below-average cost exchange, it is in effect deciding to dispose of a profitable business operation. Unlike the sale or swap of an unprofitable exchange (which has been the norm to date, and typically involves a smaller regional LEC acquiring the

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[3] Price Cap Performance Review for Local Exchange Carriers, First Report and Order, 10 FCC Rcd 8962 (1995) ("First Report and Order").

exchange with specific plans to upgrade facilities and services), no public interest is being served which would warrant allowing the selling LEC to increase its PCIs and raise its rates for its remaining services. As noted in AT&T's Comments (at p. 7), the Commission has permitted exogenous adjustments to a LEC's PCIs upon the sale of exchanges as a "limited departure" from the general standard for determining exogenous cost changes, and anticipated that these adjustments would be downward in direction.[4] Where, as here, the LEC takes it upon itself to sell or swap a profitable exchange, the Commission should not sanction an upward adjustment to the PCIs, because this neither meets the Commission's definition of an "exogenous" change,[5] nor furthers any articulated policy goals.

For the reasons stated above, the Commission should not allow GTE -- or any other price cap carrier -- to effect an upward exogenous

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4 First Report and Order at 9104-05 ("To the extent that price cap regulation may create a perverse incentive for price cap LECs to sell off higher-cost exchanges, requiring a downward exogenous adjustment should correct this incentive")(emphasis supplied).

5 The Commission has identified certain cost changes triggered by administrative, legislative, or judicial action that because they are beyond the control of carriers, should result in an adjustment to the PCI. These types of cost changes are treated as "exogenous" changes in order to ensure that price cap regulation did not lead to unreasonably high or unreasonably low rates. See Policy and Rules Concerning Rates for Dominant Carriers, 5 FCC Rcd 6786, 6807 (1990) ("LEC Price Cap Order"), recon., 6 FCC Rcd 2637 (1991) ("LEC Price Cap Reconsideration Order"), aff'd sub. nom. National Rural Telecom Assoc. v. FCC, 988 F.2d 174 (D.C. Cir. 1993).

adjustment to its PCIs upon the sale or swap of telephone exchanges. In addition, for the reasons set forth in AT&T's Comments in this proceeding, the Commission should accept GTE's use of the U S WEST methodology, and should also investigate its sales of profitable exchanges that have not resulted in exogenous reductions to GTE's PCIs.

Respectfully submitted,

AT&T Corp.

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Date: March 19, 1996

CERTIFICATE OF SERVICE

I, Ann Marie Abrahamson, do hereby certify that on this 19th day of March, 1996, a copy of the foregoing "Rebuttal Comments of AT&T Corp." was mailed by U.S. first class mail, postage prepaid, to the parties listed below.

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